

DRAFT MINUTES OF THE
MEETING OF THE PENSION OVERSIGHT COMMISSION
April 20, 2017

A meeting of the Pension Oversight Commission (POC) for the Howard County Retirement Plan and the Howard County Police and Fire Employees' Retirement Plan was held Thursday, April 20, 2017 at 3:00 p.m. In the Reisterstown room of the Ascend One Building at 8930 Stanford Blvd. Columbia, MD 21045. Members also participated via conference call. Present in person and on the phone for all or part of the meeting were the following voting members of the Commission:

Ken Barnes
Peter Hong
Todd Snyder
Mitchell Stringer
Toshie Kabuto

Also present for all or part of the call were Terry Reider and Scott Southern from the department of human resources and Eric Ralph from Summit Strategies. Mr. Snyder chaired the meeting and Mr. Southern served as secretary.

Mr. Ralph went over the structure of Summit Strategies and his background. Summit Strategies is 70 person firm that has about 70 clients and advises \$165 billion in assets. Mr. Ralph has been with Summit for 17 years and deals with a number of different client types from large institutional to small governmental plans. Mr. Ralph explained that the only source of income Summit receive are fees for client advisory services.

The discussion went to the return expectation of the current asset allocation and the risk of the different asset classes. Mr. Ralph expects that the fund will have a 6.5% return over the next 10 years. The trend in public funds is to take on more risk to meet the asset allocation. The recent assets liability study decreased the level of risk in the fund by recommending more diversification, Summit Strategies projects the current asset mix will yield a 5.9% Beta return and a 6.6% Alpha return with a volatility of 10%. Mr. Ralph explained that the Beta return is the index performance and the Alpha return is with the value added form investment managers' performance.

Mr. Stringer wanted to know if the county should be increasing their contribution into the plan based on the investment performance. Mr. Ralph explained that the actuary makes the recommendation to the county about what contribution they will need. The actuaries

look at the plan over a longer term than investment consultants, who generally look at a 10-year period of time.

Ms. Kabuto directed the discussion to the county's Private Equity investments; she wanted to know what the benchmark was for the investment class. Mr. Ralph explained that Private Equity historically adds 2-3% premium to the small cap return and that manager selection could add an additional 100 basis points. In order to capture premium the county has to look at a long term horizon. It may take about 6-7 years due to the J-Curve to realize the premium but the return can be balanced out by having different vintage years. Private equity managers provide quarterly valuations of their performance.

Mr. Snyder brought up that many of the private equity and hedge fund managers are fund of fund managers and wanted to know if the county could do more direct investments. Mr. Ralph stated that the county could possibly have direct investments but that would require more internal efforts to monitor that type of investment. He stated that some of the investment managers also had co-investments that the county had access to which lowered the fees for that investment opportunity. Summit has a good understanding of the fund of fund community and identifies managers that perform strong due diligence when investing in funds.

Ms. Kabuto wanted to know at what point the plan would be large enough to go after direct investment opportunities. Mr. Ralph stated that plans do not build out the infrastructure until they are at about \$1 billion. The commission questioned if the county should gradually build a staff to handle the direct investments.

The discussion then transitioned to the plan's investment performance for fiscal year 2016. The total composite return was 1.61% for FY16 which ranked in the 26th percentile. The commission wanted to know the peer group. Mr. Ralph stated he would supply the commission with a definition of the universe for the peer set. The fund was on the low end of the risk spectrum when compared with the peer-set.

Mr. Barnes wanted to know about the underperformance of Westfield who in the last year was 5% behind the benchmark. Mr. Ralph explained that Westfield was one of the managers that the retirement plan committee was concerned about. The committee had them in January and their strategy had been out of favor for the past few years but they expected it to rebound in 2017. The committee made the decision to take 6-12 months to give Westfield the opportunity to show improvement before moving on. Other managers that are being focused on include Pyramis, Dimensional Fund Advisors and LSV.

Mr. Ralph agreed to produce a report of the fees and expenses of the investment managers for the commission. Mr. Ralph left the call at 3:16 p.m.

The commission members briefly went over what they still needed to produce the annual report. Mr. Snyder was going to compile a list of questions for the retirement plan committee to address. He also wanted to know who to contact to get a comparison of the differences in the code of ethics that the commission recommended and what was actually adopted by the retirement plan committees earlier this year. Mr. Snyder was advised that the code of conduct was drafted by the plan's legal counsel, Whiteford, Taylor & Preston.

The commission agreed to schedule a meeting in mid-May to compile the report.

With no other issues to discuss, the meeting was adjourned at 4:29 p.m.

Respectfully Submitted,

Scott Southern,
Office of Human Resources